

**SUMMARY OF A MEETING OF THE  
ARIZONA STATE RETIREMENT SYSTEM  
OPERATIONS COMMITTEE**

**HELD ON  
Thursday, October 2, 2008  
1:00 p.m., Arizona Time**

The Operations Committee (OC) of the Arizona State Retirement System (ASRS) met in regular session in the 10th Floor Board Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. David Byers, Chair, called the meeting to order at 1:03 p.m.

This meeting was teleconferenced to the ASRS Tucson office at 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

**1. Call to Order; Roll Call; Opening Remarks**

Present:       Mr. David Byers, Chair  
                  Mr. Steven Zeman, Vice-Chair  
                  Dr. Keith Meredith  
                  Mr. Michael Townsend (Via Teleconference)

A quorum of the Committee was present for the purpose of conducting business.

**2. Approval of the Minutes of the July 24, 2008 OC Meeting**

**Motion:**       Mr. Steven Zeman moved the minutes of the July 24, 2008, OC meeting be adopted. Dr. Keith Meredith seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

**3. Presentation, Discussion and Appropriate Action Regarding ASRS Plan Design Issues**

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, introduced Mr. Patrick M. Klein, Assistant Director of External Affairs, and Ms. Lesli Sorensen, Government Relations Officer, who addressed the Committee regarding changes to the ASRS Plan Design. Mr. Klein indicated ASRS staff met with various groups over the previous 17 months to discuss changes to the ASRS Plan Design, specifically, the Return to Work (RTW) issue and its potential effect on the Defined Benefit (DB) Plan.

Mr. Klein said the consensus (although not all parties concurred and at least one party opposed) was to propose to amend state statutes regarding the RTW practice of retirees returning to work with an ASRS employer without having to wait 12 months, but to begin charging an alternate contribution rate (ACR) for any member who returns to work as a leased employee or in an

independently contracted capacity. The ACR would be calculated as two times the deficit payment (the ASRS contribution rate minus the normal cost rate) plus the employer portion of the LTD rate.

He also said the ASRS would propose several holistic design changes to the Plan including requiring contributions from a second employer only if the membership requirement is met for a second employer, requiring retired members who return to work and suspend their pensions to file re-retirement paperwork when they are ready to recommence their benefits, allowing benefits to continue for a retiree who immediately returns to work in a position that is a true change from their pre-retirement position, allowing a retired member who has reached normal retirement and returns to work after 12 months of no contributions to suspend their pension or continue receiving benefits while they work. It was also proposed to eliminate the requirement that a member who returns to work as a teacher be certificated.

Additional changes to the Plan would also include modifying the Average Monthly Compensation used in a retiring member's benefit calculation from the average of the highest 36 months in the last 120 months to the average of the highest 60 months in the last 120 months; modifying the normal retirement date definitions from 80 to 85 points (age + years of service); and capping the amount of employer contributions a member receives upon forfeiture of ASRS membership at 25% if the member has five years or more of service. Mr. Klein noted that these last three changes would affect members who joined the ASRS on or after July 1, 2010.

**Motion:** Mr. Steven Zeman moved the OC accept the Plan Design recommendations as presented by Staff and forward to the External Affairs Committee for consideration. Such recommendations include: the Return to Work Proposal, other "Holistic" design changes, 60-month salary averaging, the Rule of 85, and a 25% cap on refunds of employer contributions to members. Dr. Keith Meredith seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

#### **4. Presentation, Discussion and Appropriate Action Regarding the Deputy Director's Quarterly Information Technology (IT) Plan Report**

Mr. Guarino introduced Mr. Bob Solheim, the ASRS Independent Advisory Consultant (IAC), who updated the Committee on the status of various projects within the IT Plan from an enterprise-wide perspective.

Mr. Solheim presented a chart to the Committee regarding an assessment of the enterprise IT plan's progress. The chart was divided into the various key performance indicators of the plan. Each indicator could be rated green (satisfactory progress), yellow (at risk), or red (unsatisfactory). All items were rated green. Mr. Solheim stated that the IT Plan had reached its conclusion. He offered praise to the ASRS and its leadership for being a pleasure to work with and for making the process as smooth as possible. Mr. Solheim also noted that his position would be ending.

Mr. Kent Smith, Assistant Director, Technology Services Division, gave an update on the current status of the information technology items. He noted that all phases of the IT Plan had been completed, including the Contribution Posting cycle.

Members of the Committee expressed appreciation for the hard work performed in completing the IT Plan and offered praise to both Mr. Smith and Mr. Solheim.

#### **5. Presentation, Discussion and Appropriate Action Regarding an Internal Security Assessment of the ASRS Information Technology**

Mr. Smith addressed the Committee regarding an upcoming External Security Assessment for the ASRS. Mr. Smith introduced Mr. Patrick O'Keefe, Network Information Services Manager, Technology Services Division (TSD). Mr. Smith said that after a biennial risk assessment in July 2007, the agency identified several areas of potential risk to the IT area. Mr. O'Keefe said the risk likelihood was not high, but TSD was recommending an outside vendor be contracted to perform tests on external penetration, internal attacks and social engineering.

#### **6. Presentation, Discussion and Appropriate Action Regarding ASRS Web Services**

Mr. David Cannella, Manager, Communications and Media Relations, addressed the Committee regarding web services on the ASRS website. Mr. Cannella gave a brief overview of the background of how the web services were implemented and then noted the various facets of the current website including members being able to change their mailing address, email address, telephone number, marital status and gender as well as updating beneficiaries, viewing statements and current account information.

He also discussed future plans for the website including the addition of webinars, live chat with Benefit Advisors, enhanced communication services and a general redesign of the look of the website. Members of the Committee offered comments and suggestions on how to enhance the website in the future.

#### **7. Review of Recently Conducted Audits**

- **Alhambra Elementary School District**
- **Scottsdale Unified School District**
- **Paradise Valley Unified School District**

Mr. Guarino introduced Mr. Bernard Glick, the ASRS Chief Auditor, who updated the Committee on three recently conducted audits.

The first audit involved the Alhambra Elementary School District (AESD). The audit contained three findings: 1) AESD did not remit contributions for 40 substitute teachers and part-time employees, 2) AESD did not remit contributions from 18 employees who were eligible because they were contributing at other ASRS employers, and 3) AESD held insurance subsidy overpayments for one retiree whose health insurance drop-off date was December 1, 2004. Mr. Glick stated that AESD owed the ASRS \$109,807 in contributions and overpayments.

The second audit dealt with Scottsdale Unified School District (SUSD). The audit of the school district contained several findings including that SUSD did not collect contributions for workers who were eligible for membership in the ASRS, the District did not request a credit for seven ineligible members who remitted contributions for part of one or more fiscal years, SUSD did not have all retirees returning to work acknowledge provisions of state statute in writing, and

the District did not always comply timely with statutes regarding ASRS health insurance supplements. Mr. Glick said SUSD owed the ASRS \$89,245 in contributions.

The final audit concerned the Paradise Valley Unified School District (PVUSD). The results of the audit found that PVUSD did not collect contributions from eligible members, PVUSD did not request a refund for ineligible members, and the District did not ensure that retirees returning to work acknowledged in writing provisions of state statute. The amount due the ASRS was \$125,572.

Mr. Steven Zeman noted that due to the efforts of the Audit staff, over \$335,000 was recouped just from these three audits. He commended the Audit staff for their hard work.

#### **8. Request for Future Agenda Items**

None.

Mr. Guarino noted that the scheduled October 23, 2008 OC meeting was being canceled.

#### **9. Call to the Public**

No members of the public addressed the Committee.

#### **10. Adjournment of the OC**

Mr. David Byers adjourned the meeting at 2:47 p.m.

Respectfully Submitted by,

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Zachary Kucera  
Committee Secretary

Date

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Anthony Guarino  
Deputy Director and Chief Operations Officer

Date